Reviewing Economic Reforms in Latin America and the Caribbean

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Keane Shore

[Photo: Brazilian steelworkers.]

Major economic reforms introduced in Latin America and the Caribbean over the last decade and a half are improving some aspects of economic performance in some areas. But further policy changes are needed to increase growth, employment, and equity in the region, say the authors of a new book.

Barbara Stallings, Samuel Morley, and Wilson Peres visited the International Development Research Centre (IDRC) in Ottawa this March to summarize a three-year study carried out by the United Nations' Economic Commission for Latin America and the Caribbean (ECLAC) and local researchers in nine countries. The project was funded mainly by the Netherlands Ministry of Development and Cooperation, and by IDRC.

Modest economic gains

According to the research team, some profound effects of the region's economic structural adjustment only became evident at the country and microeconomic levels. Regional and national economic figures suggest that reforms caused modest economic recoveries in most of the nine countries studied, but a scrutiny of certain industrial sectors and small-to-medium enterprises indicate that not everyone benefited.

The reforms represent the largest policy overhaul in the Latin American and Caribbean region since the Second World War. Economies have evolved from inward-looking and state-dominated to global and market-oriented. The economic reforms were aimed at macroeconomic stability, cutting inflation, and increasing social spending. Policy makers in the region believed the changes would lead to economic growth and higher productivity, more jobs, and greater equality.

Systematic analysis

Stallings, Director of ECLAC's Economic Development Division, said the analysis was more systematic than previous studies and also made more use of qualitative data, especially those focusing on the role of investment and technological change. "One of the most interesting correlations that we found were between the initial conditions in those countries and the characteristics of the reform process," she said.

Out of the nine countries in the study, Argentina, Bolivia, Chile, and Peru were "aggressive" reformers. The remaining five — Costa Rica, Brazil, Columbia, Jamaica, and Mexico — were more "cautious" reformers, said Stallings.

Aggressive reformers

On the surface, those countries that took the most radical steps seemed to benefit the most from reforms. However, they also had less to lose in the first place, she said. Before restructuring, on average, the aggressive reformers were experiencing negative economic growth and annual inflation rates of more than 1000 % — and were facing serious questions about their governability. In this sense, the economic reforms weren't directly responsible for the faster growth rates of the aggressive reformers' economies, added Stallings. Rather, it was a surge of investment in markets where uncertainty had previously scared off investors. Cautious reformers didn't get the same boost because they started in better positions and hence had less room to improve.

According to Morley, a visiting research fellow from the Trade and Macroeconomics Division of the International Food Policy Research Institute and former ECLAC consultant, a troublesome trend was that while real wages stayed steady or increased during the 1990s, wage differentials between skilled and unskilled workers rose. That is, the already-large gap between wages of the elite quintile — the top 20 % — of university-educated workers and the lowest-paid 20 % has increased since structural adjustment.

Income gap

"In addition to having a very unequal ownership of assets, college graduates (in the region) have the highest relative earnings of any in the world. There's the highest income difference between the rich and the rest of society in the world," he said. "I guess you could say the style of growth is creating a group of winners in society ... and most of them are university graduates."

Peres, chief of the ECLAC unit on industrial and technological development, focused on the microeconomic results to see how the reforms affected economic agents. From that perspective, he said, reforms brought "significant change" at the sectoral and firm levels. But, where liberalized trade forced firms to modernize, labour-intensive sectors didn't fare well.

Investment flows

New investment usually went to large companies in capital intensive sectors, and came mainly from large transnational firms. Small firms grew in number, but didn't attract investment. Yet, following a global trend, service businesses — based on commerce, restaurants, hotels, and social, communal, and personal services — created almost 70 % of all new jobs. So, while there's more employment, many of the new jobs are less desirable. As well, most of the foreign investment was used to take over existing private and public firms. The next challenge is to attract investment to build new enterprises, and to promote domestic-foreign joint ventures.

ECLAC believes that most of the benefits of the first generation of reforms have already been realized, said Peres. "Most of the big stuff is already done. [Now] we need specific policies to [promote] growth, employment, and equity."

Policy recommendations

Toward that end, the team says that policies must be designed to increase growth, which implies the need for more investment. Such policies could include those designed to attract more foreign direct investment but also to stimulate local firms to investment more by improving the access of small and medium firms to capital and technology markets.

In addition, they are calling for a 'social offensive' to reduce unemployment and social inequality. Today, most of the firms that have attracted new investment aren't labour-intensive. Economic recovery still eludes the many small firms that rely on large amounts of labour. The social offensive also needs more — and more efficient — social spending. Much of this money should target education, which in the long run would make countries more competitive globally and make their societies more equal, said Peres.

Hard-earned stability

The researchers added that it's essential for all nine countries not to undermine the last two decades' worth of hard-earned macroeconomic stability. "The new economic model in Latin America and the Caribbean features a substantially stronger role for the private sector than was the case in the earlier postwar period. It is therefore essential for the government and private actors to work together more closely, although the nature of this relationship has yet to be worked out," they said.

One example would be to better integrate 'maquilas' (free trade-zone industries) into each country's economy. Another would be to find ways to keep social spending stable during economic downturns. The study countries don't need to find new growth strategies — they need to make good the ones they already have, concluded Peres. "Implementation is the word now."

Keane J. Shore is an Ottawa-based writer and editor. (Photo: D. Marchand, IDRC)

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For more information:

Barbara Stallings, Director, Division of Economic Development, United Nations Economic Commission for Latin America and the Caribbean (ECLAC), AV. Dag Hammarskjold S/N, Santiago, Chile, P.O. Box: Casilla 176-D; Tel: (56-2) 210-2656; Fax: (56-2) 208-0252 or 208-1946; Email: bstallings@eclac.cl

Samuel Morley, Visiting Research Fellow, Trade and Macroeconomics Division, International Food Policy Research Institute, 2033 K Street, N.W., Washington, D.C. 20006-1002 U.S.A.; Tel: (202) 862-8189; Fax: (202) 467-4439; Email: s.morley@cgiar.org

Wilson Peres, Chief, ECLAC Unit on Industrial and Technological Development, United Nations Economic Commission for Latin America and the Caribbean (ECLAC), AV. Dag Hammarskjold S/N, Santiago, Chile, PO Box: Casilla 176-D; Tel: (56-2) 210-2656; Fax: (56-2) 208-0252 or 208-1946; Email: wperes@eclac.cl

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